



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON DC 20301-1100



MAR 23 2004

The Honorable Duncan Hunter  
Chairman, Committee on Armed Services  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

In accordance with statute, I am notifying you of the Department's intent to transfer \$25.0 million of Navy family housing construction improvement and planning and design funds into the Department of Defense Family Housing Improvement Fund (FHIF). These funds will finance a family housing privatization project at Navy and Marine Corps Installations in Hawaii.

A description of the proposed project is enclosed. Representatives of the Navy are available to provide any additional information you or your staff may desire.

A similar letter is being sent to the Chairmen and Ranking Members of the other congressional defense committees.

Sincerely,

Dov S. Zakheim

Enclosure:  
As stated

cc: The Honorable Ike Skelton  
Ranking Member



## **MILITARY HOUSING PRIVATIZATION INITIATIVE NAVY AND MARINE CORPS PROJECT SUMMARY**

### **INSTALLATION:**

Navy Region Hawaii (Phase I)

### **SCOPE:**

This project will result in the Department of the Navy's (DoN) acquisition of an interest in a limited liability company which will design, finance, construct, renovate, own, operate, and maintain the units for a period of 50 years.

The DoN will make an investment of \$25 million in this project and will convey, via transfer of title, 2,003 existing family housing units located in Hawaii. Of the units conveyed, 963 will be demolished, 188 will have major renovations and 852 units will receive minor renovations or require no work. Additionally, 908 new units will be constructed. The project will result in an end-state of 1,948 privatized housing units. Land associated with homes to be conveyed will be leased for a term of 50 years. At the end of the 50-year term, the land will revert to the DoN and the entity will be required to transfer title of all infrastructure and improvements, then existing, to the DoN. A Request for Proposals for this project was issued and a successful offeror was selected for exclusive negotiations via competitive procedures. The DoN is currently finalizing the business agreements.

The 908 new units will be safe, high-quality, energy-efficient, three-, four- and five-bedroom, single-family homes and duplexes. The target pay grades are E1 through O5 for the 908 units, and E1 through E6 for the 1,040 existing homes, including those to be renovated.

Housing and rents will not exceed the Basic Allowance for Housing (BAH) at the dependent rate for the designated military pay grade, minus the amount sufficient to cover the average estimated utility costs. In accordance with the authorizing legislation, all 1,948 end-state homes will be made available to active duty military personnel on a priority basis/right of first refusal basis at preferential rents. In addition, eight units will be constructed to house management and maintenance personnel on-site.

The purpose of this project is to allow the DoN to work with the private sector to upgrade the quality of housing, and operate and maintain that family housing, in essential areas of need. This project will leverage DoN assets with private investment to accomplish housing goals faster and at lower costs than through traditional military construction.

The DoN will reserve the right to utilize the business entity to be established via this project to address the privatization of additional family housing at Navy Region Hawaii, Marine Corps Base Hawaii and other installations subject to prior Congressional approval.

No Defense Commissary Agency (DeCA); Navy and Marine Corps Exchange Service or Moral Welfare Recreation (MWR) Services activities will be affected by this privatization initiative and the land lease will preclude the Selected Offeror from having any revenue generating activities that compete with DeCA or MWR/Services.

#### **AUTHORIZATION:**

**10 U.S.C. Section 2875 -- Investments.** DoD will provide equity for this investment.

**10 U.S.C. Section 2878 -- Conveyance or lease of existing property and facilities.** Housing units will be conveyed and land will be leased to the Selected Offeror as part of the project.

**10 U.S.C. Section 2880 -- Units size and type.** The housing to be renovated and constructed as part of this project will be similar to that found in local community.

**10 U.S.C. Section 2881 -- Ancillary Supporting Facilities.** No conflict with Navy, and Marine Corps Exchange, DeCA, MWR or non-appropriated fund activities.

**10 U.S.C. Section 2882(e) -- Lease Payments through Pay Allotments.** Tenants will be required to pay rents through allotments.

**10 U.S.C. Section 2883 -- Department of Defense Housing Funds.** A transfer of appropriated funds to the DOD Family Housing Improvement Fund will be required.

#### **JUSTIFICATION:**

This project will provide military families access to safe, quality, affordable housing. The existing housing is inadequate and requires replacement and major renovation. In future phases, the business entity established via Phase I could be utilized to replace an additional 2,855 existing family homes, and renovate an additional 1,451 homes. The use of public/private venture authorities will leverage the DoN assets and allow for the replacement and renovation of critically needed homes. This project will significantly improve the living conditions and quality of life for military families at Navy Region Hawaii and Marine Corps Base Hawaii more rapidly than exclusive reliance on Military Construction.

#### **FUNDS REQUIRED:**

The budget scoring analysis indicates a projected credit subsidy or scored cost of \$25.0 Million.

#### **SOURCE OF FUNDS:**

Funds for this project consist of funds appropriated for the FY 2003 family housing improvement project at Pearl Harbor, with the remaining funds coming from the FY 2003 planning and design account.

<u>Fiscal Year</u>	<u>Location</u>	<u>Description</u>	<u>Amount</u>
FY 2003	Family Housing Improvements, Pearl Harbor, HI		\$24.742 Million
FY 2003	Family Housing Planning and Design		<u>\$ .258 Million</u>
			\$25.000 Million